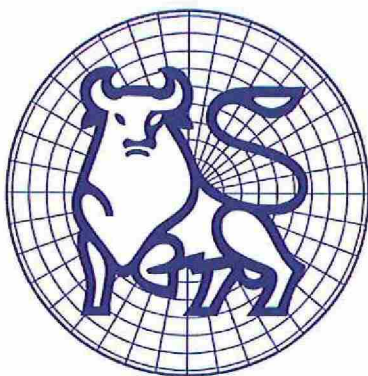


EXHIBIT 2



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA



Presentation to the

Employees Retirement System

Pension Funding Bonds: Debt Structure and Funding Analysis

August 7, 2007



Merrill Lynch

Global Markets & Investment Banking Group



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Pension Funding Bonds

Presentation to the Employees Retirement System

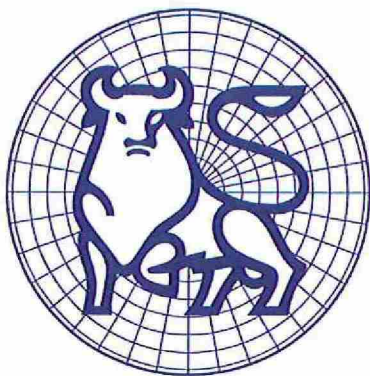
Table of Contents

1. Introduction	1
2. Debt Structure	3
3. Funding Strategy Analysis	8
4. General Fund Relief Proposal	17
5. Market Update	22
Appendix: Funding Strategy Scenarios	24





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA



Introduction



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Introduction

Overview of the ERS Unfunded Liability Problem

Core Objectives of Proposed Solution

Increase Solvency of ERS

- The Commonwealth of Puerto Rico announced in the PR Credit Forum a plan to sell **\$6.5 billion to \$9 billion** of debt to help relieve the Commonwealth's growing unfunded pension liability and increase the system's capacity to pay benefit obligations⁽¹⁾

"Los esfuerzos de mi administración están dirigidos a darle salud fiscal al Sistema de Retiro de los Empleados del Gobierno y la Judicatura para que cuentes con un ingreso asegurado, tras haberle dedicado años fructíferos de tú vida al servicio público. Para ello, en los próximos meses estaremos realizando una emisión de bonos que le extiende la vida actuarial a nuestro Sistema de Retiro para los próximos 20 ó 25 años."

- Gov. Aníbal Acevedo Vilá⁽²⁾

Increase Funding Ratio

- As of June 30, 2005, the funding ratio of the ERS was **19%**. According a recent Wilshire report, the average funding ratio of state retirement plans is **84%**⁽³⁾

- An **\$8 billion** cash infusion would bring the ERS to the average funding ratio of state retirement plans

Mitigate Credit Concerns

- *Credit Challenges* - "Seriously under-funded pension system, also plagued by reporting lags and intra-governmental disputes over payment responsibilities; system has had difficulty meeting benefit payments in recent years" - Moody's⁽⁴⁾

- *What could move the rating up?* - "Significant improvement in the condition of the Commonwealth's pension system, including greater recurring budgetary contributions." - Moody's⁽⁴⁾



(1) Source: El Nuevo Día, link available in Retirement Systems Administration's webpage www.asr.gobierno.pr.

(2) Source: "Message from the Governor of the Commonwealth of Puerto Rico," Retirement Systems Administration web page.

(3) Source: "2007 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation," Wilshire Consulting, March 2007.

(4) Source: Moody's Research Report, Commonwealth of Puerto Rico General Obligation Bonds, July 21, 2006.



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Introduction

Solving the ERS Unfunded Liability Problem

"The Will and the Way to Make it Happen"⁽¹⁾

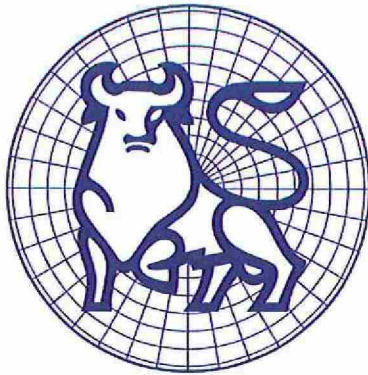
- For several years, the Commonwealth has considered various measures to tackle the unfunded pension liability problem
- Previous attempts to fund the pension plan have been unsuccessful
- Currently the Commonwealth has "the will and the way" to successfully fund its pension liability
 - Support from the Governor, the GDB and the ERS
 - The financing team has developed a financial structure that will achieve the following objectives:
 - Increase funding ratio without burdening the Commonwealth's general fund
 - Committed Capital - Since debt is paid solely by statutory employer contributions, the assets of the System are protected and not available to cover debt service payments
 - Allows ERS the opportunity to generate additional investment income to cover benefit obligations and operational costs
 - Political goodwill of providing significant resources to historically underfunded pension plan
 - Legal analysis shows proposed structure does not require legislative support
 - Attractive market conditions
 - Sizable market demand for taxable municipal obligations
 - Even with recent volatility, long-term market rates and credit spreads are still favorable



(1) Source: "Employees' Retirement System", Presentation made in the Puerto Rico Credit Forum, March 2007.



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA



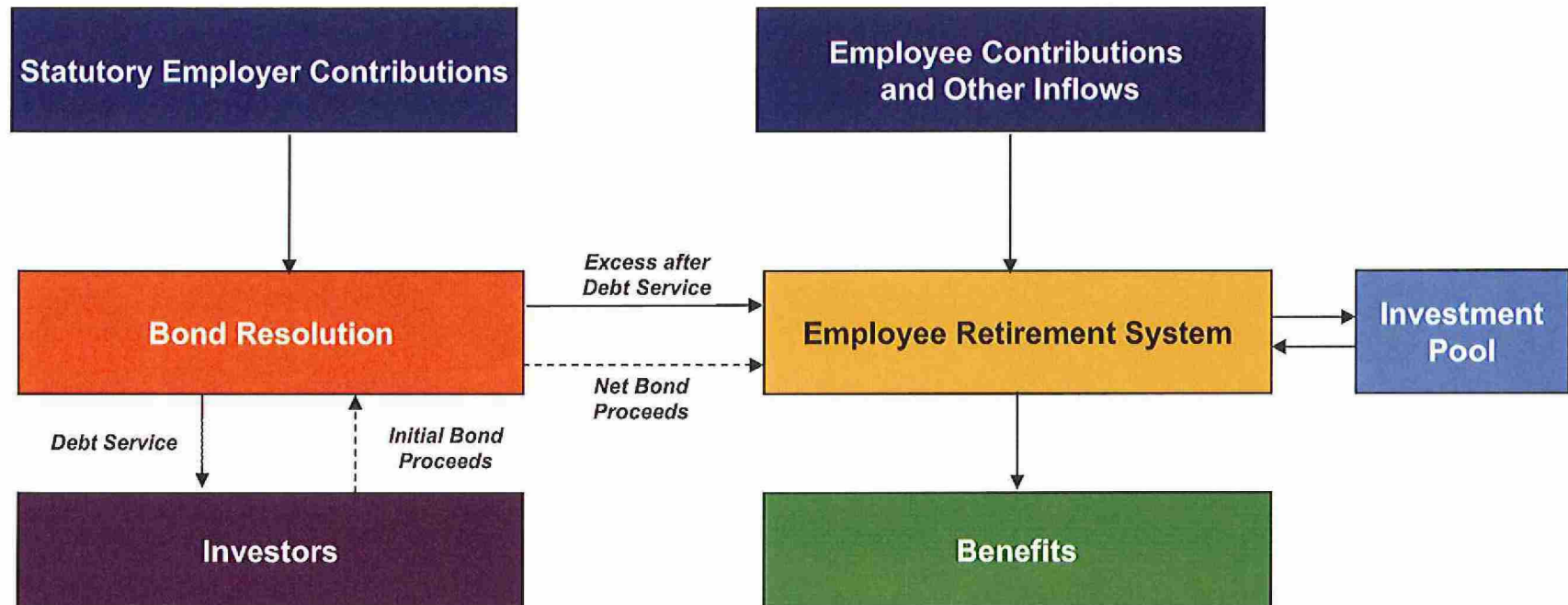
Debt Structure



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Debt Structure Flow of Funds

Statutory Employer Contribution Securitized to Cover Debt Service



Statutory employer contribution: 9.275% of payroll for participating employees





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

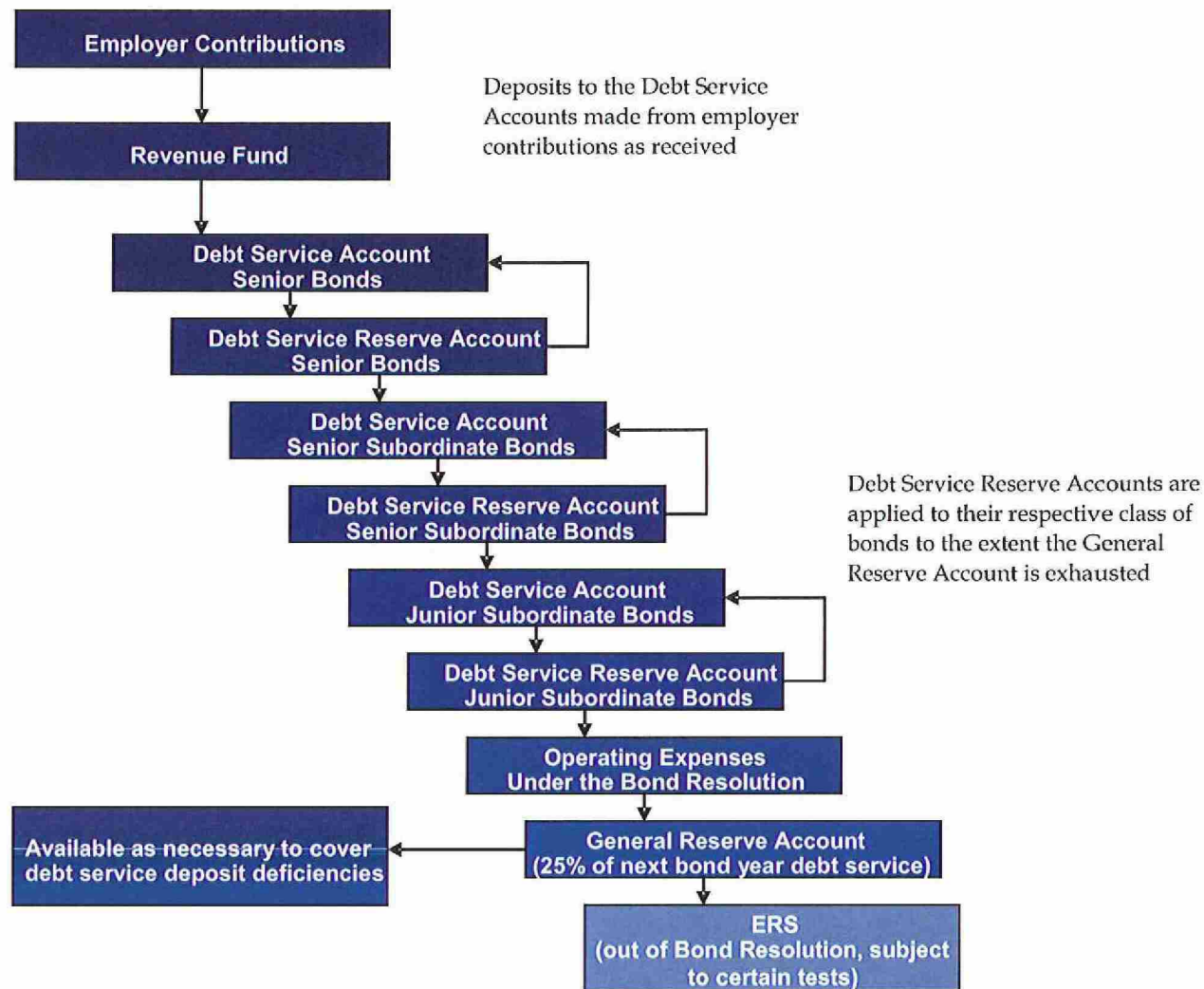
Debt Structure

Bond Resolution Flow of Funds

Bond Resolution's flow of funds was constructed to maximize credit quality, reducing interest costs

Multiple liens, debt service coverage and reserve funds provide protections against revenue shortfalls

Lien	Target Coverage / Additional Bonds Test
Senior	2.50x
Sr. Subordinate	1.50x
Jr. Subordinate	1.25x





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Debt Structure

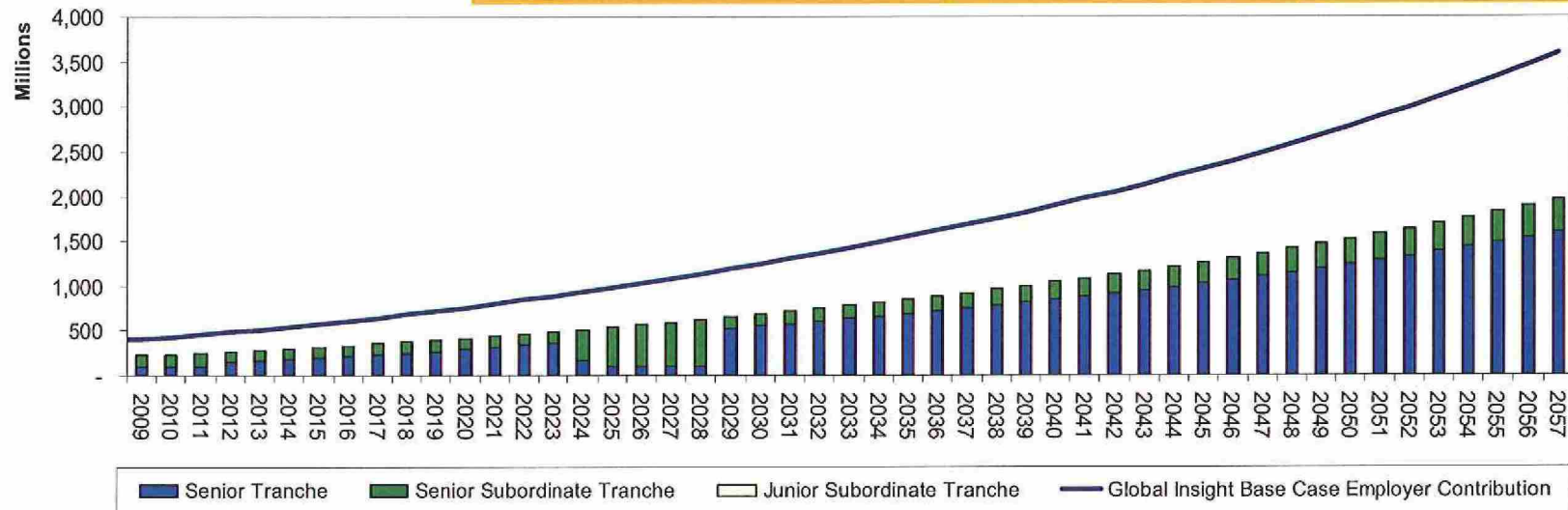
\$7 Billion in Net Proceeds

Sources and Proceeds to ERS

	Total	Current Interest Bonds (Insured)	Variable Rate Bonds (Uninsured)	Current Interest Bonds (Uninsured)	Capital Appreciation Bonds
SOURCES OF FUNDS					
Senior Lien Proceeds	4,818,106,560	1,631,260,000			3,186,846,560
Senior Subordinate Proceeds	2,500,774,939		1,900,000,000		600,774,939
Junior Subordinate Proceeds					
Total Sources	7,318,881,498	1,631,260,000	1,900,000,000		3,787,621,498
Net Proceeds to ERS	7,027,777,036				

Debt Service Schedule

Minimum debt service coverage is 1.83x annual employer contributions.





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Debt Structure

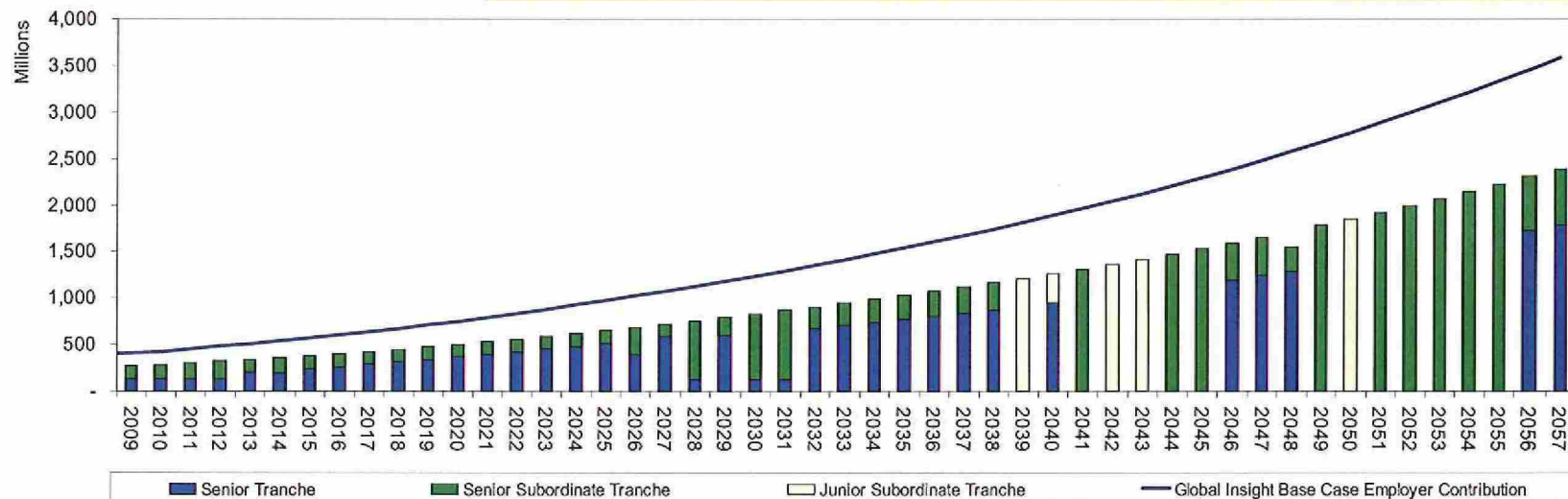
\$8.5 Billion in Net Proceeds

Sources and Proceeds to ERS

	Total	Current Interest Bonds (Insured)	Variable Rate Bonds (Uninsured)	Current Interest Bonds (Uninsured)	Capital Appreciation Bonds
SOURCES OF FUNDS					
Senior Lien Proceeds	4,677,458,590	2,107,325,000	-	-	2,570,133,590
Senior Subordinate Proceeds	3,584,638,293	-	2,200,000,000	-	1,384,638,293
Junior Subordinate Proceeds	530,137,214	-	-	-	530,137,214
Total Sources	8,792,234,097	2,107,325,000	2,200,000,000	-	4,484,909,097
Net Proceeds to ERS	8,437,002,197				

Debt Service Schedule

Minimum debt service coverage is 1.5x annual employer contributions.





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Debt Structure

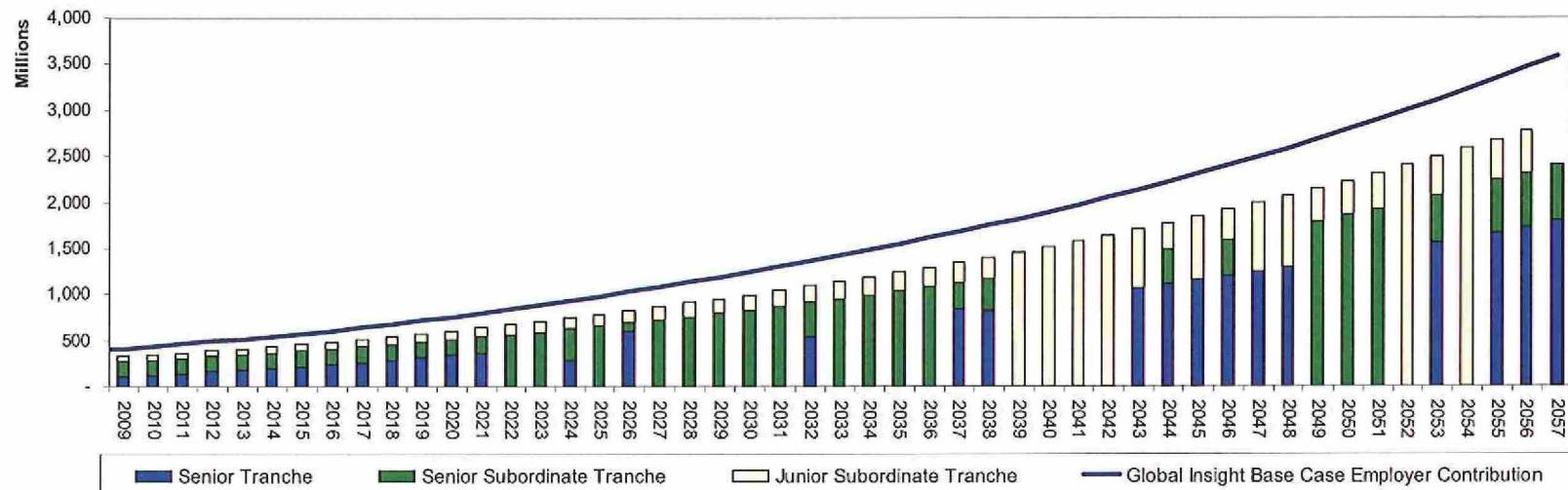
\$10 Billion in Net Proceeds

Sources and Proceeds to ERS

	Total	Current Interest Bonds (Insured)	Variable Rate Bonds (Uninsured)	Current Interest Bonds (Uninsured)	Capital Appreciation Bonds
SOURCES OF FUNDS					
Senior Lien Proceeds	3,343,648,067	1,827,230,000		10,000	1,516,408,067
Senior Subordinate Proceeds	4,513,911,606		2,500,000,000		2,013,911,606
Junior Subordinate Proceeds	2,469,680,328				2,469,680,328
Total Sources	10,327,240,000	1,827,230,000	2,500,000,000	10,000	6,000,000,000
Net Proceeds to ERS	9,982,762,367				

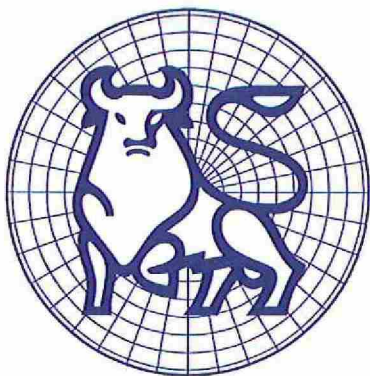
Debt Service Schedule

Minimum debt service coverage is 1.25x annual employer contributions.





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA



Funding Strategy Analysis



Funding Strategy Analysis

Criteria for Comparing Funding Alternatives

Metrics which Provide a Measure of the Success of the Funding Strategy

Funding Ratio

- A higher initial funding ratio eliminates a key credit concern of rating agencies and the investor community
- A higher funding ratio shows that the Commonwealth is providing better support for its obligation to public sector employees and retirees

Asset Depletion

- The lower likelihood of asset depletion measures is primarily driven by asset returns

Expected PV Shortfall

- Measures the expected additional burden to participating employers in current dollar terms
- Another measure of financing and investment strategy risks, a lower expected value is a measure of smaller downside risk in the provision of additional resources to cover future benefit obligations

Other Considerations

- Impact of changing market conditions and political landscape on long-term financing and investment strategy
- Does the plan anticipate and provide flexibility in addressing future changes in benefit structure, contribution rates and other policy objectives?





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Funding Strategy Analysis

Financing Alternatives and Implementation Strategies

Upfront Issuance

- Upfront issuance of total desired funding
- Benchmark transaction of \$4 billion, \$7 billion and \$10 billion respectively

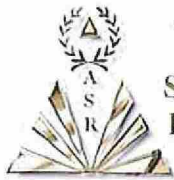
Short Term Phasing

- Issue \$4 billion in 2007 followed by \$3 billion in 2008
- Issue \$7 billion in 2007 followed by \$3 billion in 2008

Long Term Phasing

- Issue \$7 billion and \$10 billion in 2007 and a second bond issue only if the ratio of assets to the PV of future benefit obligations falls below a 20% funding level
- Second bond issue size determined by the minimum of (i) bond capacity remaining or (ii) amount needed to reach 60% funding level





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Funding Strategy Analysis Assumptions - Scenario Analysis

■ Simplifying Assumptions - Generic risk profile maintain over entire term

- No change in taxable yield curve (does not capture floating rate and term spreads risks)
- No change in credit spreads for future bond issues
- No changes in expected returns and volatility of portfolio
- No future changes to the asset allocation strategy of the ERS
- No economic or actuarial changes that might shift benefit obligations in the future (mortality, inflation, etc.)

■ Initial Parameters

- Net Assets available to pay benefit obligations and operating expenses: \$ 2.3 billion + Net Proceeds of Bond Issue
- Discounting Rate for Present Value Calculations – 6.7% (All-in yield of 50-year bond issue)

■ Investment Portfolio

- Annual Expected Return: 8.3%
- Annual Volatility: 12.5%
- 50-Year Annualized Volatility: 7.3%
- Returns are mean reverting

*Analysis uses Monte Carlo Simulation to provide evolution of System's assets available
for payment of benefit obligations and operating expenses*





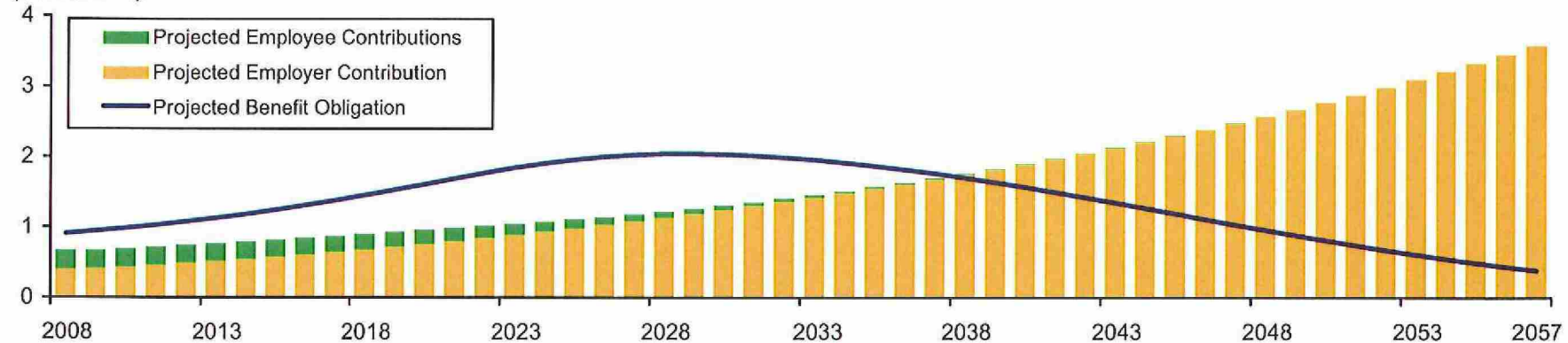
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Funding Strategy Analysis

Assumptions - Benefits and Contributions Projections

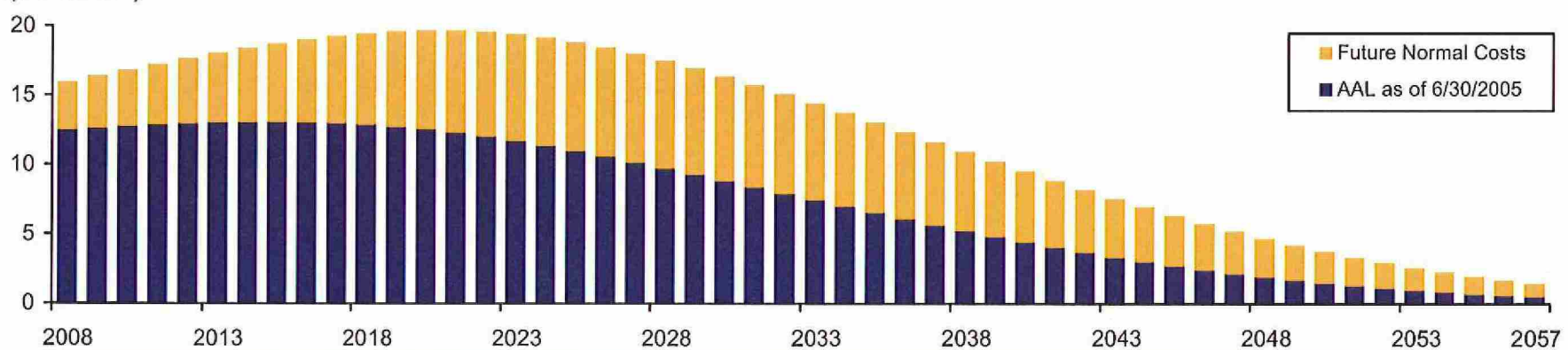
Projected Annual Contributions and Obligations⁽¹⁾

(\$ billions)



PV of Remaining Projected Benefit Obligations⁽²⁾

(\$ billions)



Proposed funding strategy allows ERS to bring forward future surplus contributions



(1) Source: Analysis provided by Global Insight (Base Case for participating employers' payroll) and AON Risk Consultants (employee contributions and benefit obligations).
(2) Source: Analysis provided by AON Risk Consultants. Benefit obligations discounted at 8.5% actuarial rate.



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Funding Strategy Analysis

Summary of Results

Optimal Bond Issue Size between \$6-8 Billion with Long-Term Phasing

Alternative	Initial Funding Ratio ⁽¹⁾	Initial UAAL ^(1,2)	Depletion Year			Depletion Likelihood		Expected PV Shortfall ⁽²⁾	
			<u>25th Pct</u>	<u>Median</u>	<u>75th Pct</u>	<u>2027</u>	<u>2057</u>	<u>2027</u>	<u>2057</u>
Do Nothing	19%	10.0	2015	2016	2018	100%	100%	5.2	5.2
Initial \$4 Billion Bond Issue	52%	6.0	2022	2025	2032	61%	84%	2.6	2.9
Short Term Phasing \$4 & \$3 Billion	52%	6.0	2026	2032	Never	32%	66%	1.6	2.2
Initial \$7 Billion Bond Issue	76%	3.0	2026	2032	Never	33%	63%	1.6	2.2
Short Term Phasing \$7 & \$3 Billion	76%	3.0	2029	2039	Never	20%	55%	1.2	2.1
Initial \$10 Billion Bond Issue	100%	0.0	2029	2040	Never	20%	54%	1.3	2.1
\$7 Billion & Long-Term Phasing	76%	3.0	2034	Never	Never	5%	49%	0.3	1.1
\$10 Billion & Long-Term Phasing	100%	0.0	2033	Never	Never	11%	47%	0.6	1.3

- A \$6-8 billion initial cash infusion, brings the System's funding ratio close to rating agencies' funding level thresholds for "healthy" pension systems
- Long-term phasing can serve as a risk mitigation tool as needed
 - Significantly reduces likelihood of depleted assets and significantly reduces expected PV shortfall
 - Long-term phasing might require additional securitization of employer contributions beyond FY 2057
- Interest rate risk and credit spread uncertainty are additional concerns



(1) Calculations based on accrued actuarial liabilities and net assets provided in June 30, 2005 actuarial report. Initial levels provide values after closing of first bond issue.
(2) Amounts in \$ billions



Funding Strategy Analysis

Advantages and Disadvantages

Funding Alternative	\$4 Billion	\$7 Billion			\$10 Billion		
Implementation Strategy	Upfront	Upfront	ST Phasing	LT Phasing	Upfront	ST Phasing	LT Phasing
Funding							
Initial Funding Ratio Impact	Low	Medium	Low	Medium	High	Medium	High
Likelihood of Funding Benefits	Low	Medium	Medium	High	Medium	Medium	High
Financing							
Exposure to Interest Rate Risk	Minimal	Minimal	High	Low	Minimal	High	Low
Exposure to Credit Spread Volatility	Minimal	Minimal	High	Low	Minimal	High	Low
Extend Pledge of Contributions	No	No	Possibly	Likely	No	Possibly	Likely
Depletion							
Expected Time to Depletion	Short	Medium/Short	Medium/Short	Long	Medium/Long	Medium/Long	Long
Expected Shortfall	High	Medium	Medium	Low	Medium	Medium	Low
Additional Bonding Capacity	High	Medium	Medium	Medium	Low	Low	Low
Other Considerations							
Market Access	N/A	N/A	Uncertain	Uncertain	N/A	Uncertain	Uncertain
Political Landscape	N/A	N/A	Uncertain	Uncertain	N/A	Uncertain	Uncertain

- Plan funding considerations favor a larger bond issue complemented by additional long-term phasing of debt
- Financing and other considerations favor an upfront bond issue to mitigate uncertainty of market access, political landscape and financing costs
- A long-term phasing strategy is a reasonable and prudent strategy to reduce the risk of asset depletion





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Funding Strategy Analysis

Agreed Upon Recommendations and Discussion Points

■ Recommendations

- Issue at least \$7 billion either upfront or through short-term phasing
- Consider long-term phasing of additional debt to mitigate downside risk

Discussion Points

■ Upfront Issuance vs. Short-Term Phasing

- Funding Risks (Interest rates, credit spreads, market access)
- Investment Risks (Asset allocation, investment conditions)

■ How would recommendation change with

- Changes in financing and investment market environment
- Changes in benefits structure
- Changes in employer contributions
- Changes in policy objectives

■ Other strategies

- Adding leveraged investments to selected funding strategy
- Improving transaction from a rating agency point-of-view



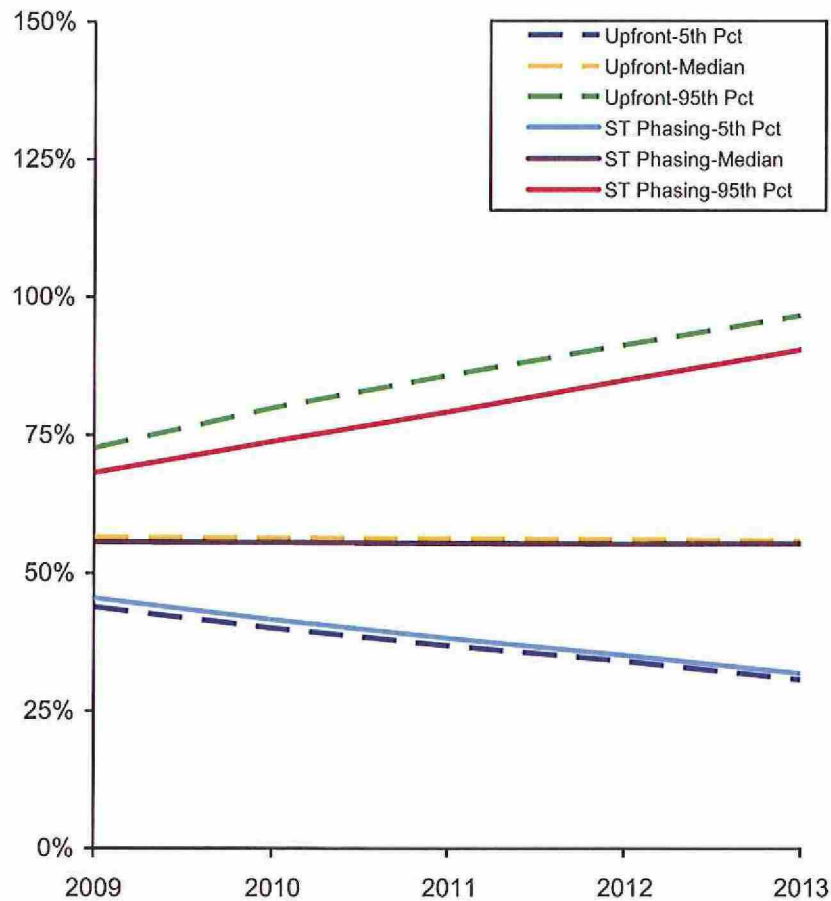


ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

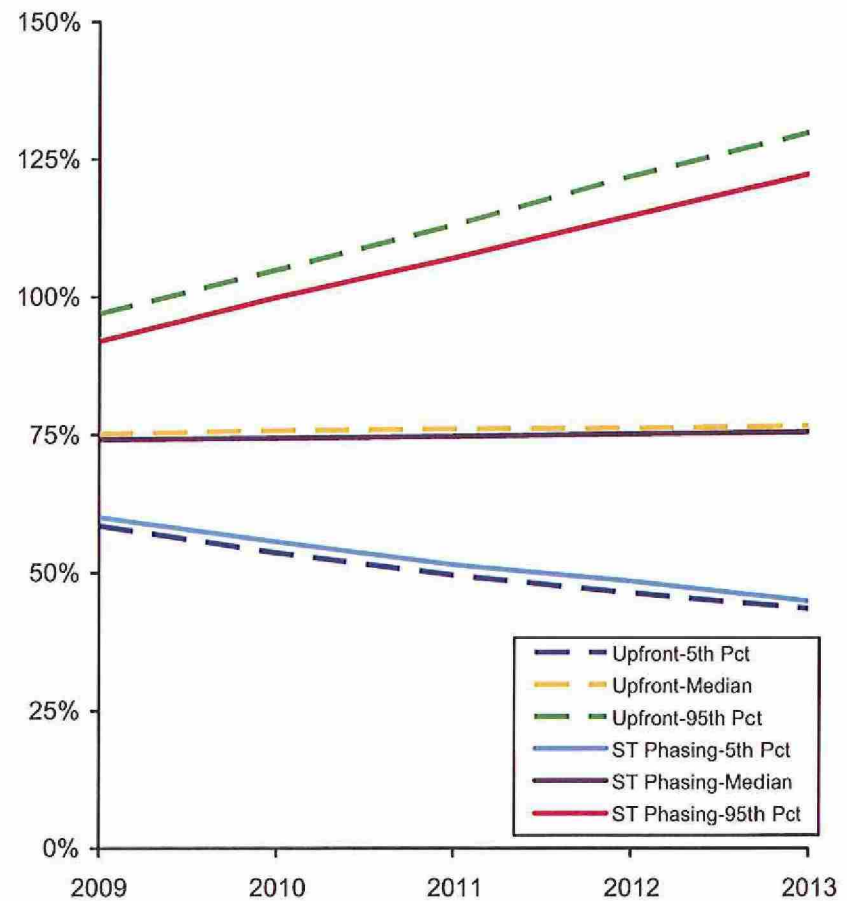
Funding Strategy Analysis

Short-Term Comparison of Funding Alternatives

Asset Balance - \$7 Billion Funding⁽¹⁾



Asset Balance - \$10 Billion Funding⁽¹⁾



Assuming no interest rate changes, short term phasing mitigates risk at a cost of reducing economic benefit of transaction



(1) Asset balance normalized by present value of remaining benefit obligations

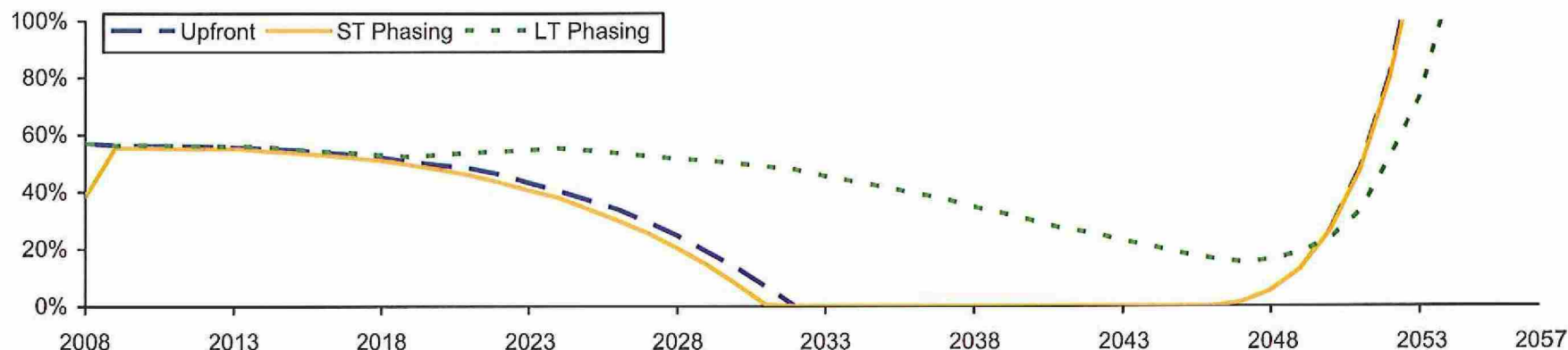


ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

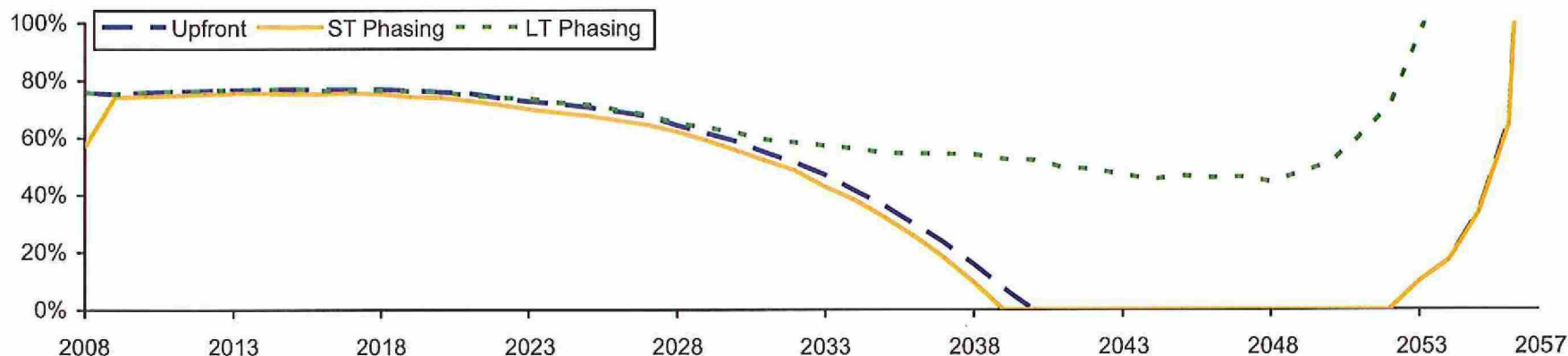
Funding Strategy Analysis

Long-Term Phasing Complements Initial Funding Strategy

Median Asset Balance - \$7 Billion in Short-Term Funding⁽¹⁾



Median Asset Balance - \$10 Billion in Short-Term Funding⁽¹⁾



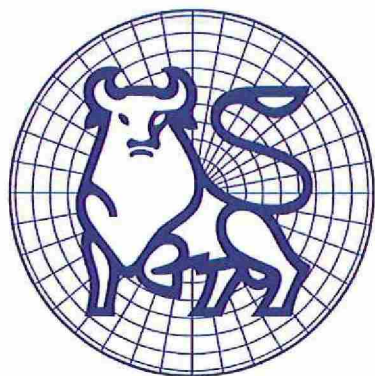
Long term phasing significantly increases likelihood of successfully financing projected obligations



(1) Asset balance normalized by present value of remaining benefit obligations



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA



General Fund Relief Proposal



ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

General Fund Relief Proposal Proposal

Reduce Short-term Burden on the General Fund and Increase Funding to ERS

Objectives

- Create budgetary relief in the General Fund by transferring obligations for special law payments to Employees Retirement System (ERS)
- Increase future statutory employer contributions rates to provide additional cashflows for the proposed pension funding bond issue

Expected Results

- Proposal provides an estimated relief of approximately \$520 million in the next five fiscal years
- Additional future employer contributions can be used to increase size and security of proposed bond issue by \$2 to \$3 billion, increasing the solvency of the ERS
- Participating employers are not exposed anymore to actuarial risks from ERS participants

Fiscal Year	Special Laws Pay- as-You-Go Benefits	Proposed Employer Contribution Rate	Incremental Contribution Cost of Proposed Rate	Estimated Relief to ERS Participating Employers	Estimated Relief to General Fund
2008	131,450,000	9.275%	-	131,450,000	131,450,000
2009	138,250,000	9.750%	(21,032,000)	117,218,000	117,218,000
2010	145,350,000	10.000%	(33,636,000)	111,714,000	111,714,000
2011	152,650,000	10.500%	(60,563,000)	92,087,000	92,087,000
2012	159,950,000	11.000%	(90,597,000)	69,353,000	69,353,000





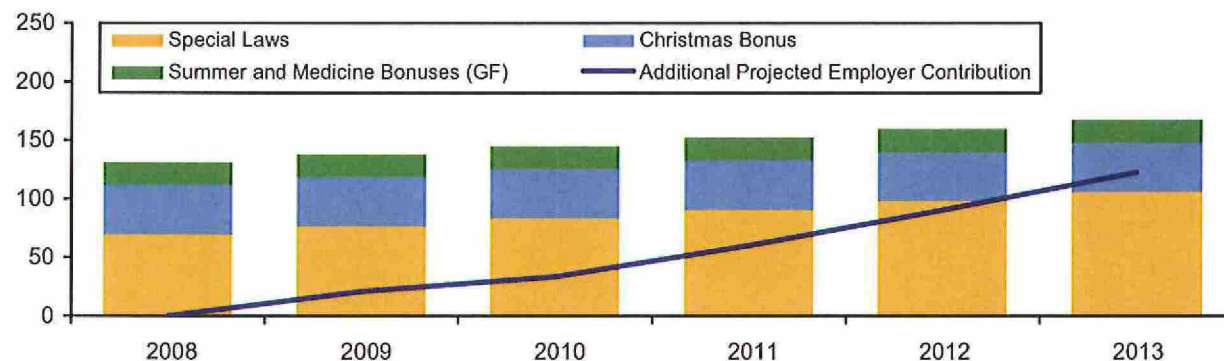
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

General Fund Relief Proposal

Projected Impact and Budgetary Benefit

Projected Impact (\$ millions)

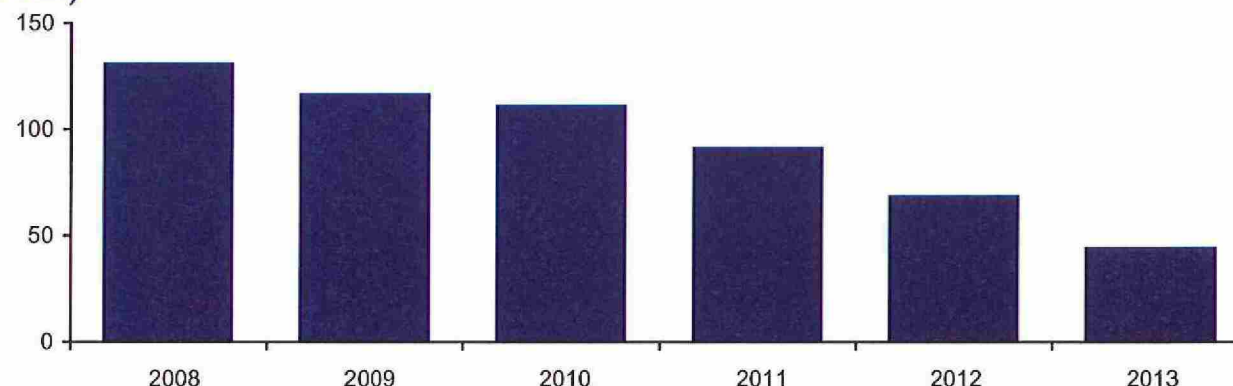
Obligation transfer
liberates revenue for ERS
participating employers



Budgetary Benefit (\$ millions)

Over \$520 million in cash
flow benefits for the
General Fund from FY
2008 to FY 2012

Projected benefits
through until FY 2035



The General Fund of the Commonwealth could reduce costs by over \$104 million annually in the next 5 fiscal years

Projected Special Law Benefit Include:

- Incremental benefit for special law benefit provided on the census data for current retirees (assumed to include 3% COLA's from 2001 and 2004 and increase in minimum benefit)
- 3% COLA every 3 years for all current and future pensioners (estimated by 0.99% annual COLA)
- Increased J&S benefit for current and future married retirees to 50% from 30% (from 40% for pre-retirement death)
- \$250 post-retirement life insurance benefit
- Increase in minimum benefit formula to \$300 from \$200/month





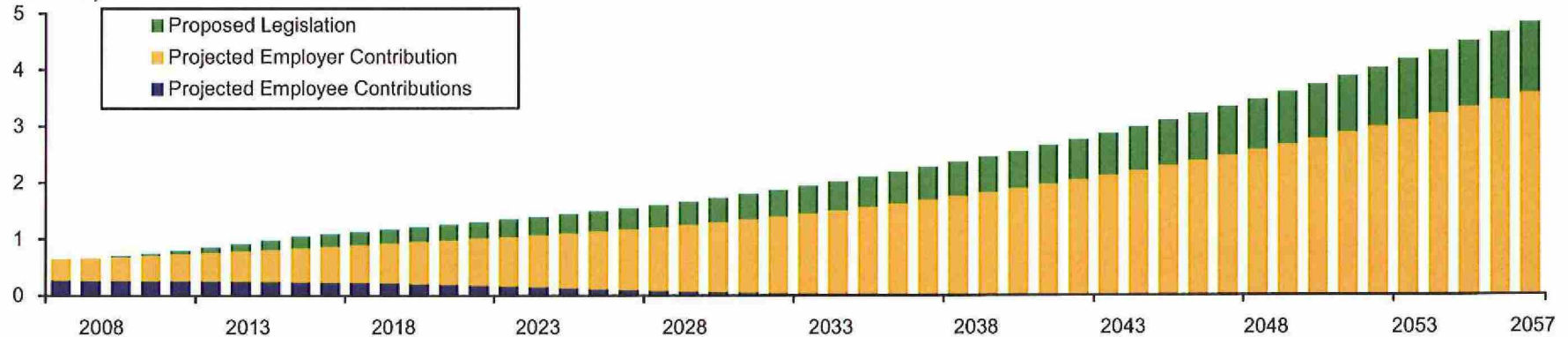
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

General Fund Relief Proposal

Projected Contributions and Benefit Payments

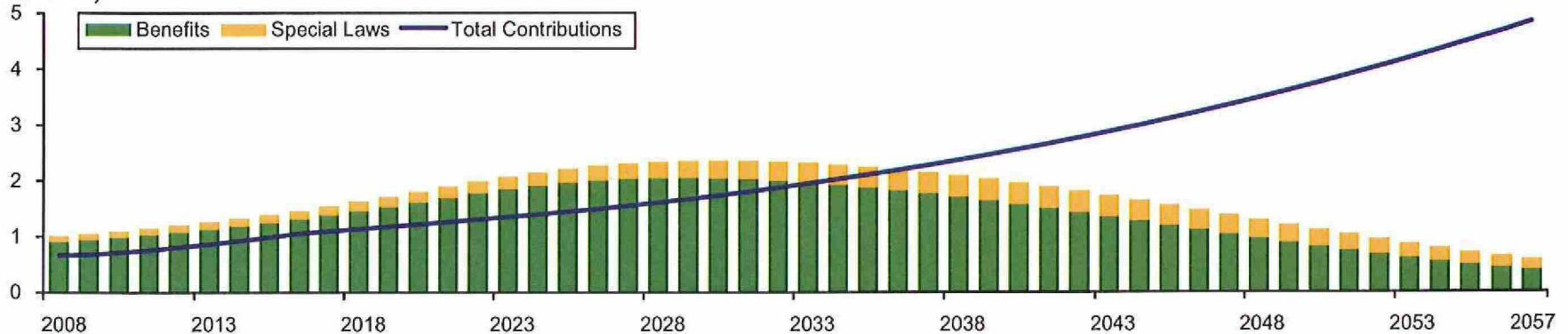
Projected Contributions

(\$ billions)



Projected Benefit Payments

(\$ billions)





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

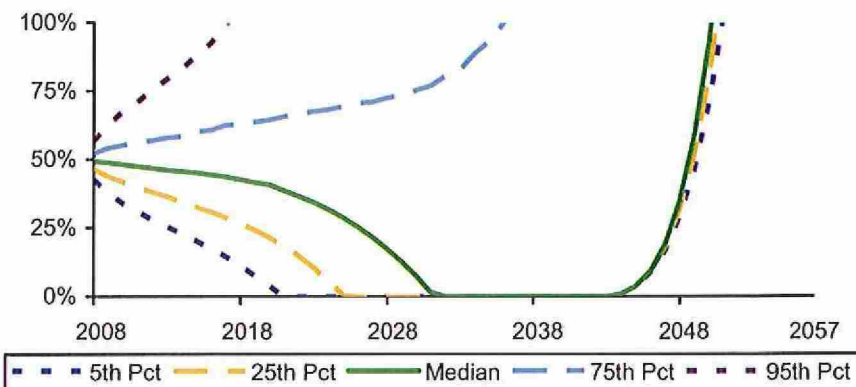
General Fund Relief Proposal

\$7 Billion Bond Issue + Increase in Employer Contributions

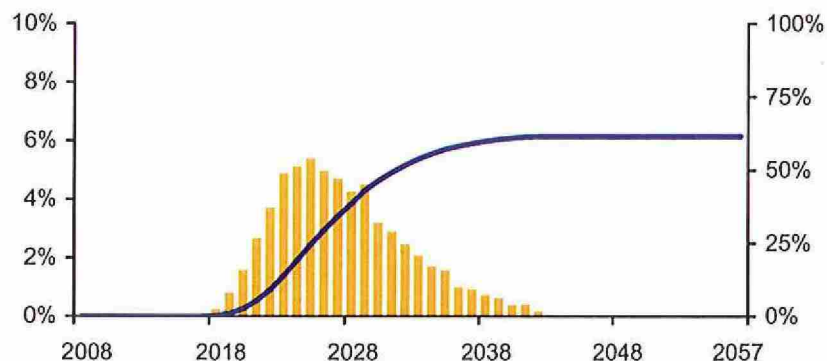
Scenario Summary

- Projected Median Depletion Year – 2032
 - 75th Percentile – No Depletion
 - 25th Percentile – 2026
- 61.5% probability of asset depletion
- Expected PV shortfall of \$1.9 billion

Asset Balance / PV Benefit Obligation

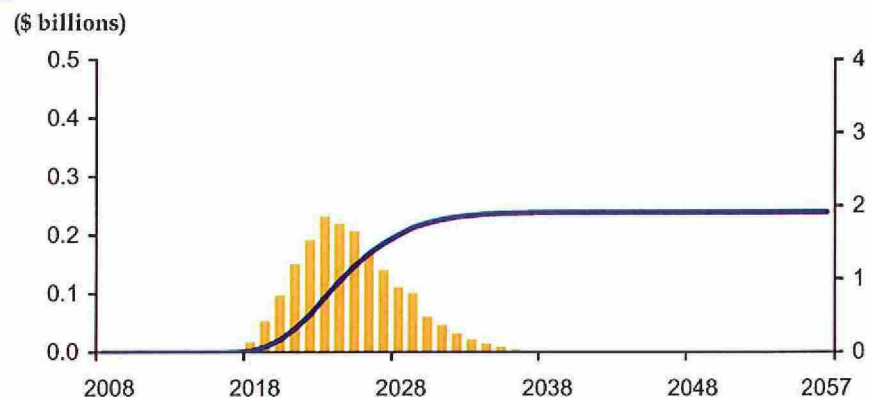


Asset Depletion Probability



By 2027: 34.3%, By 2057: 61.5%

Expected PV Shortfall



Expected Shortfall - \$1.91 billion





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

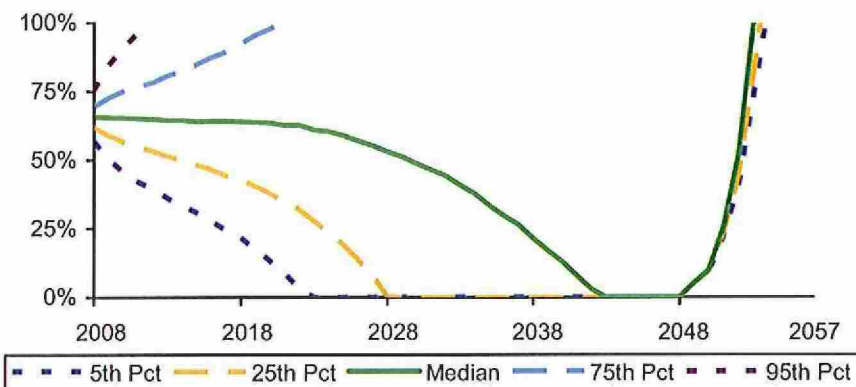
General Fund Relief Proposal

\$10 Billion Bond Issue + Increase in Employer Contributions

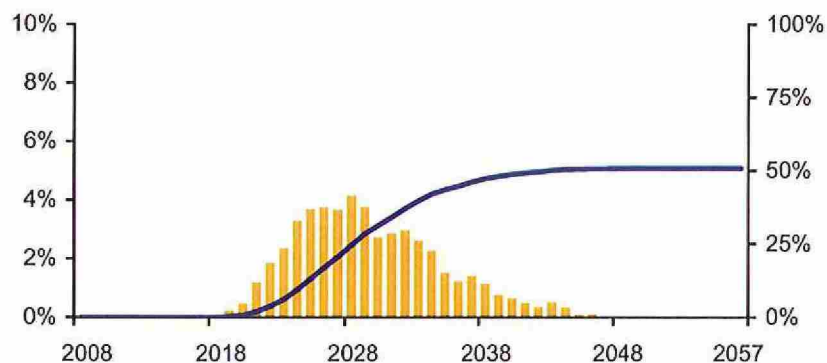
Scenario Summary

- Projected Median Depletion Year – 2043
 - 75th Percentile – No Depletion
 - 25th Percentile – 2028
- 50.9% probability of asset depletion
- Expected PV shortfall of \$1.75 billion

Asset Balance / PV Benefit Obligation

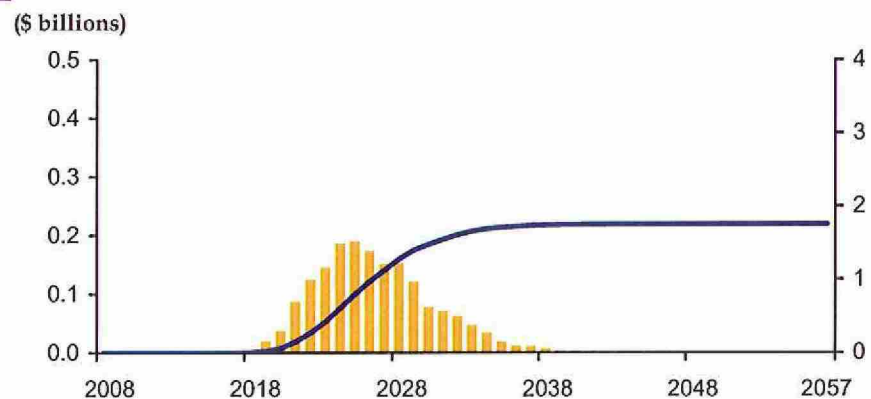


Asset Depletion Probability



By 2027: 20.6%, By 2057: 50.9%

Expected PV Shortfall



Expected Shortfall - \$1.75 billion





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA



Appendix: Funding Strategy Scenarios

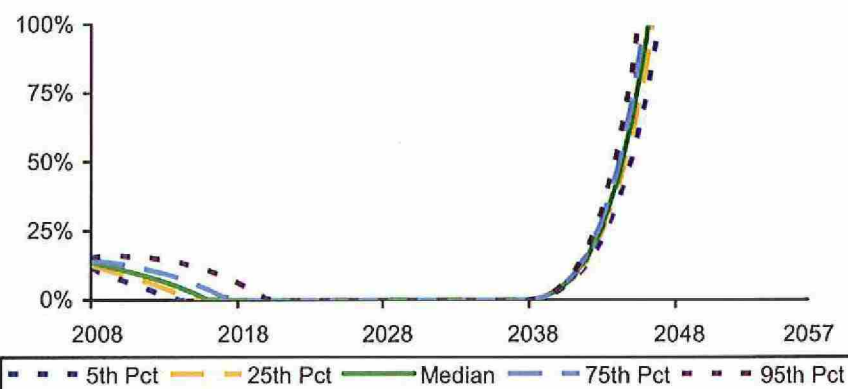


Appendix: Funding Strategy Scenarios (0) Do Nothing Scenario

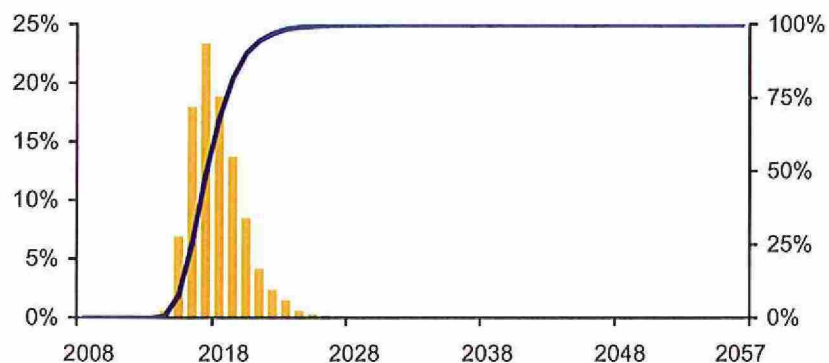
Scenario Summary

- Projected Median Depletion Year – 2016
 - 75th Percentile – 2018
 - 25th Percentile – 2015
- 99.9% probability of asset depletion
- Expected PV shortfall of \$5.2 billion

Asset Balance / PV Benefit Obligation

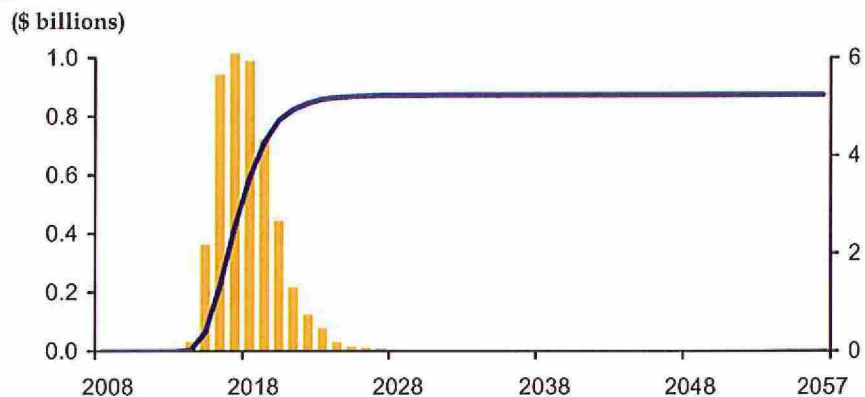


Asset Depletion Probability



By 2027: 99.7%, By 2057: 99.9%

Expected PV Shortfall



Expected Shortfall - \$5.24 billion





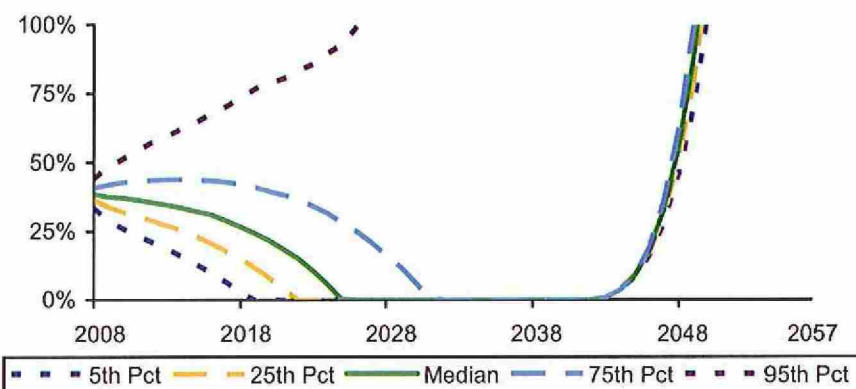
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Appendix: Funding Strategy Scenarios (1) Initial \$4 Billion Bond Issue

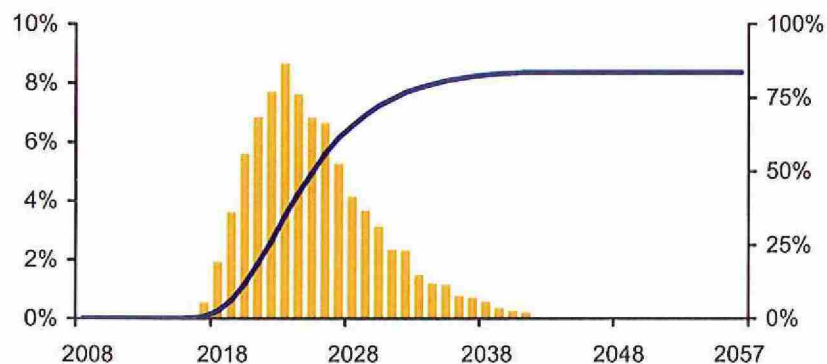
Scenario Summary

- Projected Median Depletion Year - 2025
 - 75th Percentile - 2032
 - 25th Percentile - 2022
- 83.7% probability of asset depletion
- Expected PV shortfall of \$2.9 billion

Asset Balance / PV Benefit Obligation

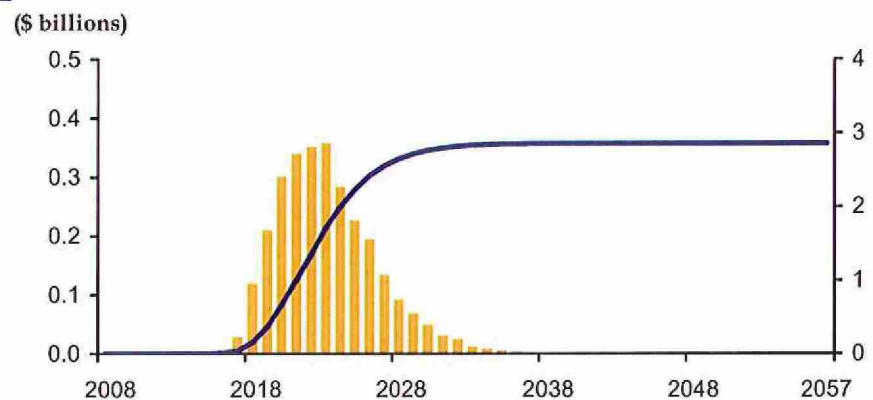


Asset Depletion Probability



By 2027: 61.4%, By 2057: 83.7%

Expected PV Shortfall



Expected Shortfall - \$2.86 billion





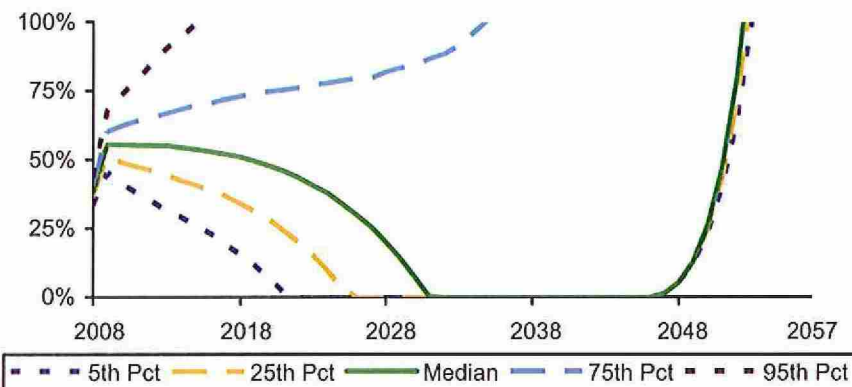
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Appendix: Funding Strategy Scenarios (2) Phasing \$4 Billion + \$3 Billion

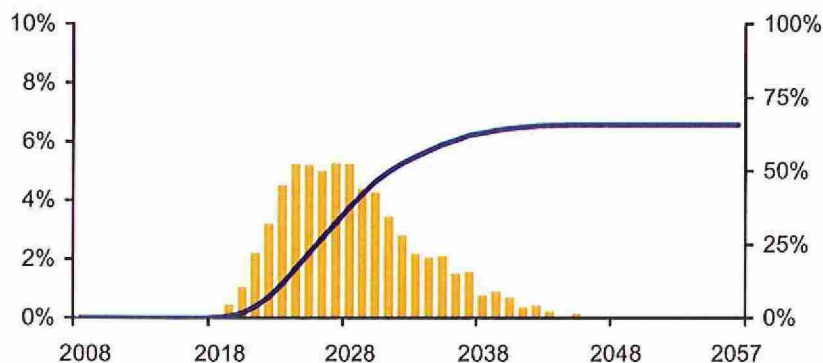
Scenario Summary

- Projected Median Depletion Year - 2032
 - 75th Percentile - No Depletion
 - 25th Percentile - 2026
- 65.7% probability of asset depletion
- Expected PV shortfall of \$2.2 billion

Asset Balance / PV Benefit Obligation

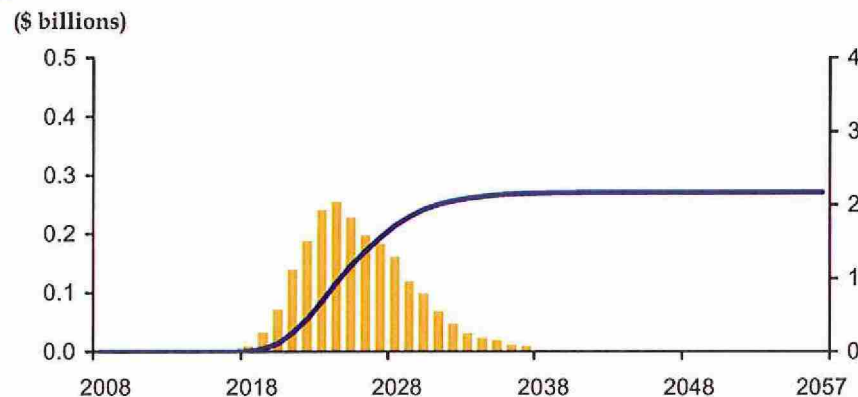


Asset Depletion Probability



By 2027: 32.3%, By 2057: 65.7%

Expected PV Shortfall



Expected Shortfall - \$2.16 billion





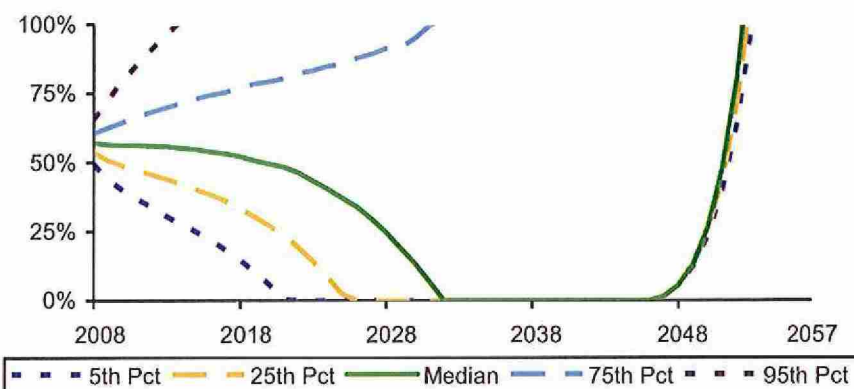
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Appendix: Funding Strategy Scenarios (3) Initial \$7 Billion Bond Issue

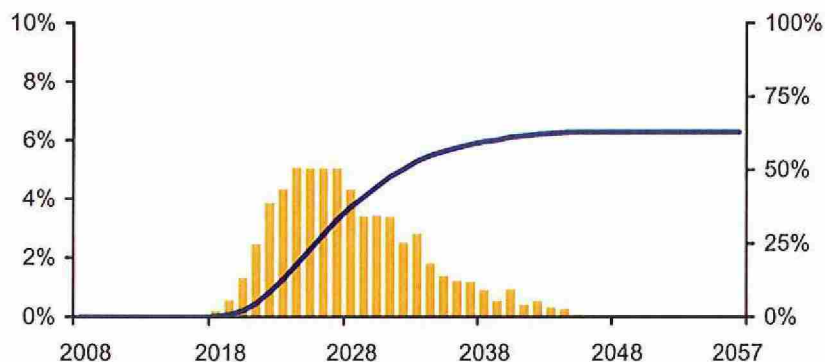
Scenario Summary

- Projected Median Depletion Year - 2032
 - 75th Percentile - No Depletion
 - 25th Percentile - 2026
- 63.0% probability of asset depletion
- Expected PV shortfall of \$2.2 billion

Asset Balance / PV Benefit Obligation

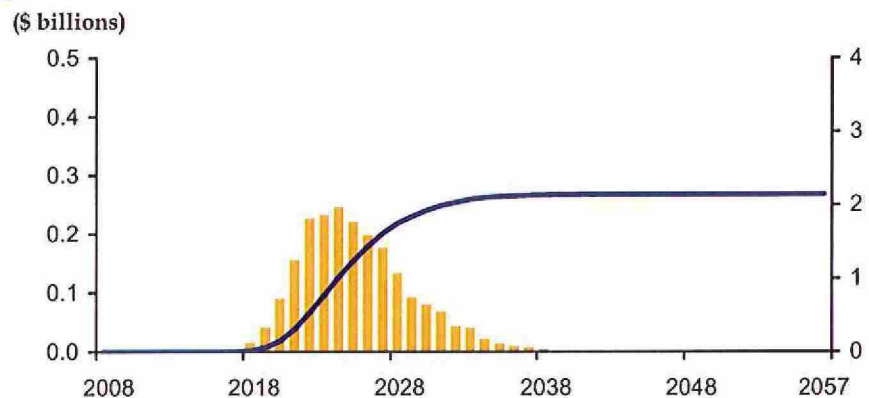


Asset Depletion Probability



By 2027: 33.1%, By 2057: 63.0%

Expected PV Shortfall



Expected Shortfall - \$2.15 billion





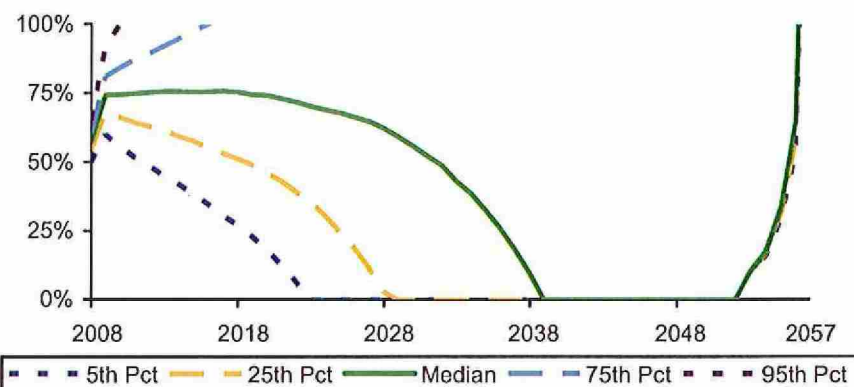
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Appendix: Funding Strategy Scenarios (4) Phasing \$7 Billion + \$3 Billion

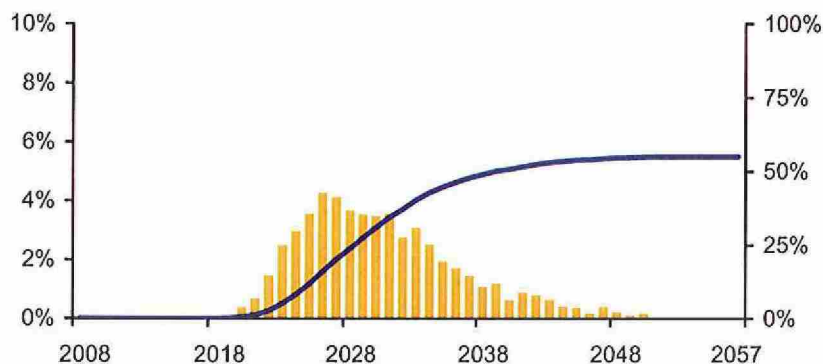
Scenario Summary

- Projected Median Depletion Year - 2039
 - 75th Percentile - No Depletion
 - 25th Percentile - 2029
- 55.0% probability of asset depletion
- Expected PV shortfall of \$2.1 billion

Asset Balance / PV Benefit Obligation

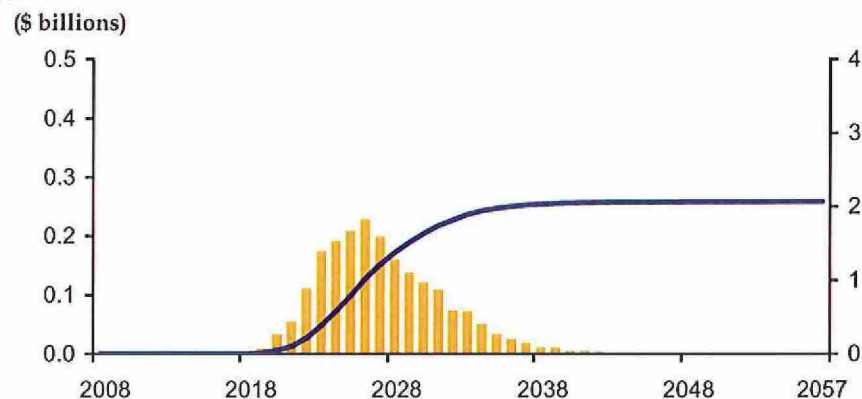


Asset Depletion Probability



By 2027: 20.1%, By 2057: 55.0%

Expected PV Shortfall



Expected Shortfall - \$2.07 billion





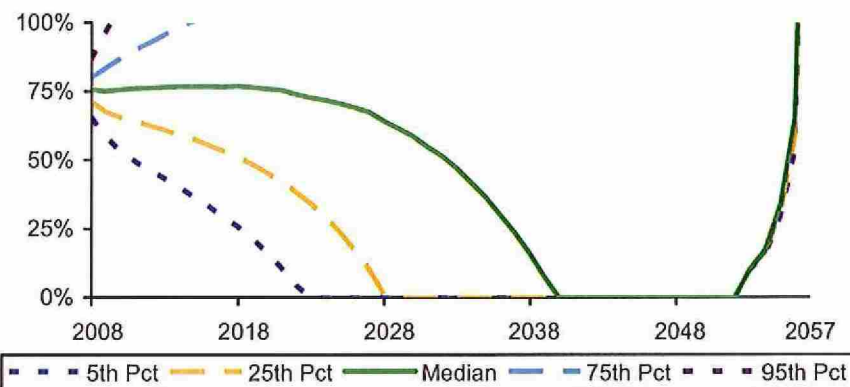
ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

Appendix: Funding Strategy Scenarios (5) Initial \$10 Billion Bond Issue

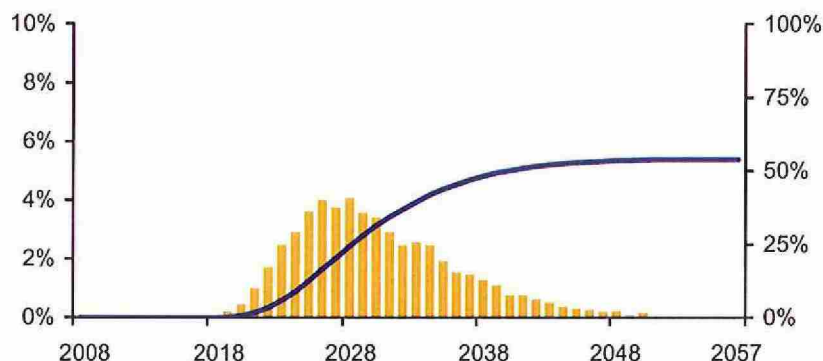
Scenario Summary

- Projected Median Depletion Year - 2040
 - 75th Percentile - No Depletion
 - 25th Percentile - 2029
- 53.9% probability of asset depletion
- Expected PV shortfall of \$2.1 billion

Asset Balance / PV Benefit Obligation

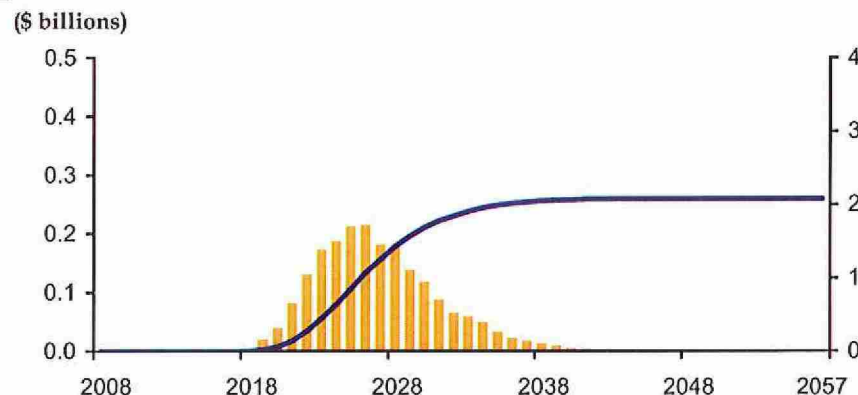


Asset Depletion Probability



By 2027: 20.3%, By 2057: 53.9%

Expected PV Shortfall



Expected Shortfall - \$2.08 billion





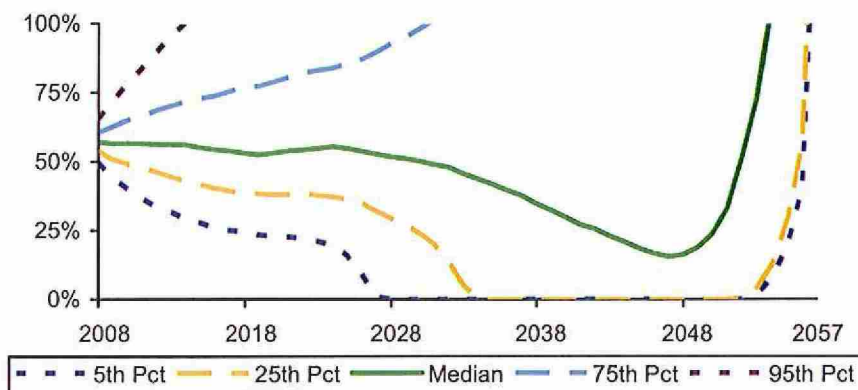
Appendix: Funding Strategy Scenarios

(6) Initial \$7 Billion + Long Term Phasing

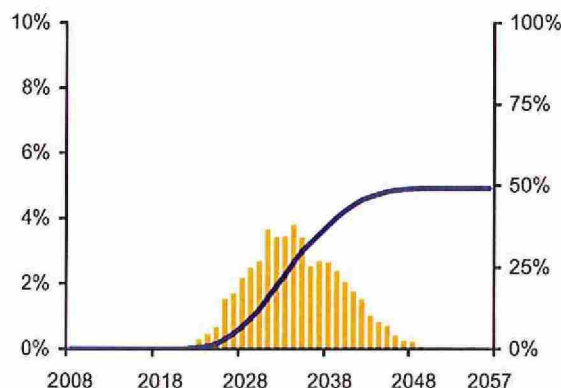
Scenario Summary

- Projected Median Depletion Year - **No Depletion**
 - 75th Percentile - **No Depletion**
 - 25th Percentile - 2034
- 49.3% probability of asset depletion
- Expected PV shortfall of \$1.1 billion
- Expected Second Bond Issue PV size of \$1.6 billion

Asset Balance / PV Benefit Obligation

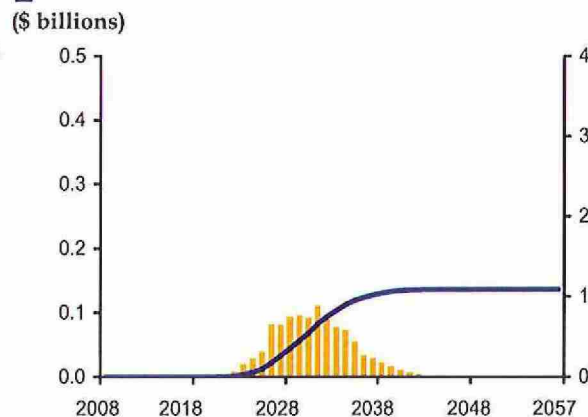


Asset Depletion Probability



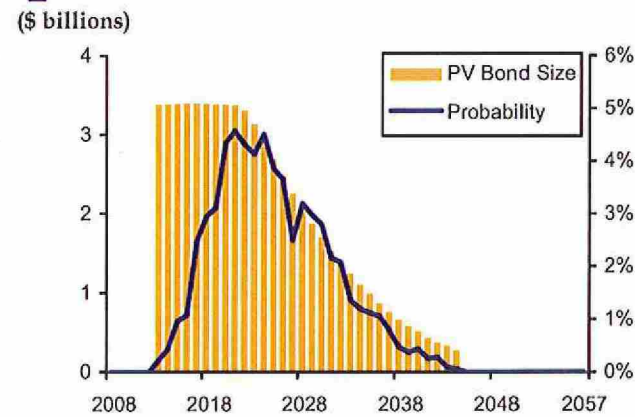
By 2027: 4.8%, By 2057: 49.3%

Expected PV Shortfall



Expected Shortfall - \$1.09 billion

Likelihood/Size of 2nd Bond Issue



Expected PV Size - \$1.64 billion
Likelihood of Bond Issue: 64%
Issue by 2017: 5%, 2027: 43%



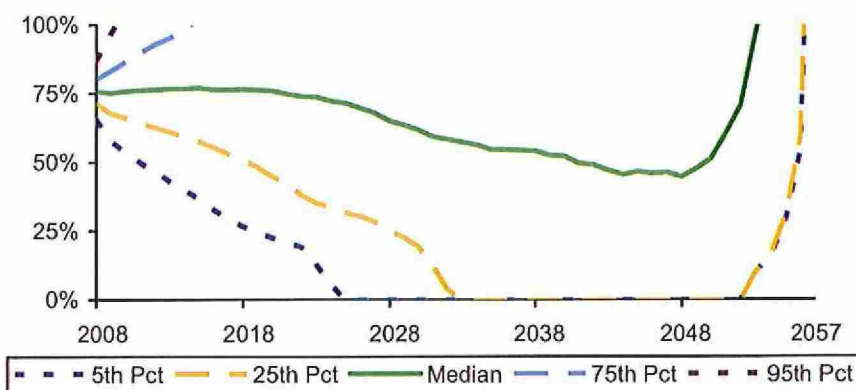


Appendix: Funding Strategy Scenarios (7) Initial \$10 Billion + Long Term Phasing

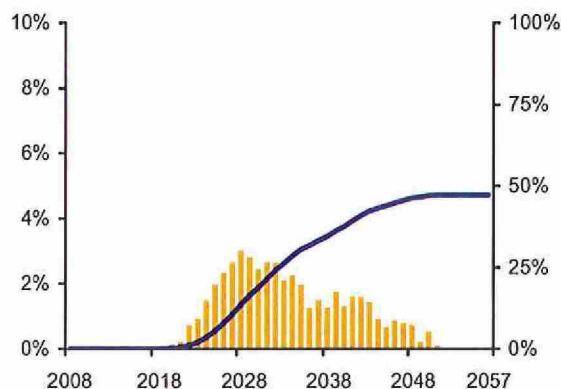
Scenario Summary

- Projected Median Depletion Year - **No Depletion**
 - 75th Percentile - **No Depletion**
 - 25th Percentile - 2033
- 47.2% probability of asset depletion
- Expected PV shortfall of \$1.3 billion
- Expected Second Bond Issue PV size of \$700 million

Asset Balance / PV Benefit Obligation

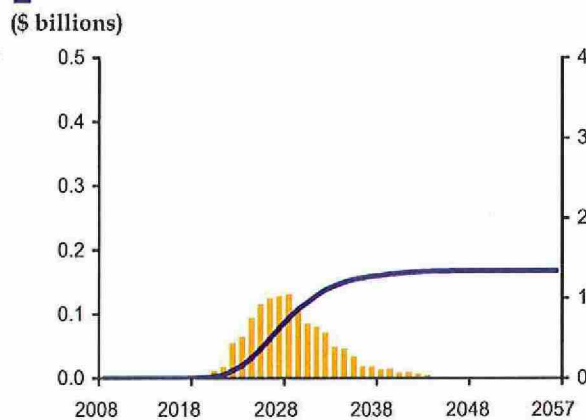


Asset Depletion Probability



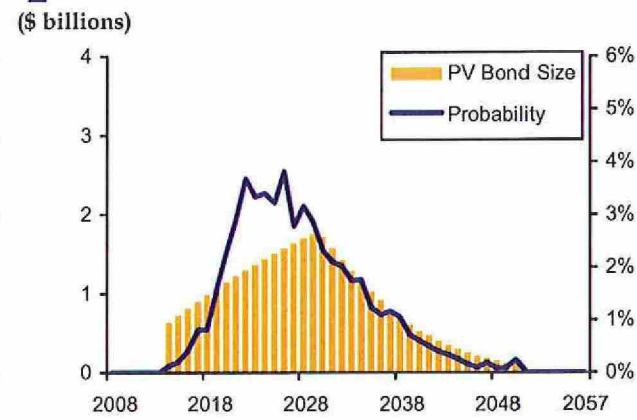
By 2027: 10.6%, By 2057: 47.2%

Expected PV Shortfall



Expected Shortfall - \$1.34 billion

Likelihood/Size of 2nd Bond Issue



Expected PV Size - \$699 million
Likelihood of Bond Issue: 54%
Issue by 2017: 2%, 2027: 29%





ESTADO LIBRE ASOCIADO DE PUERTO RICO
ADMINISTRACIÓN DE LOS
SISTEMAS DE RETIRO DE LOS
EMPLEADOS DEL GOBIERNO
Y LA JUDICATURA

This information is for your private information and is for discussion purposes only. We are acting solely in the capacity of an arm's length counterparty and not in the capacity of your financial adviser or fiduciary. We or our affiliates may buy or sell instruments identical or economically related to any instruments mentioned here. We or our affiliates may have an investment banking or other commercial relationship with the issuer of any security or financial instrument mentioned here or related thereto. Generally, all over-the-counter ("OTC") derivative transactions involve the risk of adverse or unanticipated market developments, risk of illiquidity and other risks. Unless specifically stated otherwise, any transaction terms are indicative only and are subject to change and any prices mentioned here are not bids or offers by Merrill Lynch to purchase or sell any securities or financial instruments. All trades are subject to credit approval. Prior to undertaking any trade, you should discuss with your professional tax or other adviser how such particular trade(s) affect you. Options are not suitable for all investors. Option buyers may lose their entire investment. Option sellers may have an unlimited loss. This brief statement does not disclose all of the risks and other significant aspects of entering into any particular transaction.

As a multi-service broker-dealer, MLPF&S, works with and maintains accounts for, numerous individuals and entities, some of which may have a past or present relationship with you. In order to both identify and avoid the perception of an existing or potential conflict of interest, we wish to inform you that MLPF&S has worked together on various projects with persons or entities that may currently or previously have a relationship with you as Financial Advisor, Swaps Financial Advisor, Asset Manager, or other capacity. MLPF&S may have a current or previous relationship with such persons or entities, which may include working together on financings, and structurings in which they have been compensated for their services, as well as participating with them in, or acting as sponsor of, industry related conferences. In addition, they and their principals may have maintained brokerage and money management accounts with MLPF&S. If you would inform us of individuals or entities which work (or have worked) with you as service provider in any capacity, we would be happy to inform you as to whether MLPF&S has any relationship with them and, upon your request, provide any information you wish regarding such relationship with them.

